

Second-Party Opinion

Mengniu Sustainable Financing Framework



Evaluation Summary

Sustainalytics is of the opinion that the Mengniu Sustainable Financing Framework is credible and impactful and aligns with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, Social Bond Principles 2021, Green Loan Principles 2021, and Social Loan Principles 2021. This assessment is based on the following:

Evaluation Date	June 7, 2022
Issuer Location	Hohhot, China

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USE OF PROCEEDS The eligible categories for the use of proceeds – Environmentally Sustainable Management of Living Natural Resources and Land Use, Climate Change Mitigation, Renewable Energy, Energy Efficiency, Sustainable Water and Wastewater Management, Eco-efficient and Circular Economy Adapted Products, Production Technologies and Processes, Green Buildings, Access to Low-cost High Nutrition Products, Employment Generation through SME Financing – are aligned with those recognized by the Green Bond Principles, Social Bond Principles, Green Loan Principles, and Social Loan Principles. Sustainalytics considers that investments in the eligible categories are expected to improve the environmental performance of the Company's operations, contribute to providing social benefits in China and help advance the UN Sustainable Development Goals, specifically SDGs 2, 6, 7, 8, 9 and 12.



PROJECT EVALUATION / SELECTION China Mengniu Dairy Company Limited's Secretary Department of Sustainable Development Executive Committee consists of Mengniu's Corporate Affairs, Investor Relations and Finance Departments, will be responsible for evaluating and selecting eligible projects in line with the Framework's eligibility criteria and submitting to the Sustainable Development Executive Committee for final approval. The Company will undertake an environmental and social risk assessment which is applicable to all allocation decisions made under the Framework. Sustainalytics considers the risk management system to be adequate and the process to be in line with market practice.



MANAGEMENT OF PROCEEDS China Mengniu Dairy Company Limited's Finance Department will track the allocation of proceeds through a sustainable financing register. The Company intends to fully allocate the proceeds to eligible projects within two years of issuance. Pending allocation, proceeds will temporarily be invested in cash, cash equivalents or short-term liquid instruments in accordance with the Company's corporate treasury policy. This is in line with market practice.



REPORTING China Mengniu Dairy Company Limited intends to report on allocation of proceeds in its sustainability report on an annual basis until full allocation. Allocation reporting will include information such as the aggregate amount of proceeds allocated to eligible projects, balance of unallocated proceeds and share of financing versus refinancing. In addition, the Company is committed to reporting on relevant impact metrics. Sustainalytics views the Company's allocation and impact reporting as aligned with market practice.

Introduction

China Mengniu Dairy Company Limited (“Mengniu” or the “Company”) is a dairy product manufacturer in China. Headquartered in Hohhot, Mengniu produces dairy products, including liquid milk products, ice cream, milk formula and cheese. As of December 2021, Mengniu had 41 production sites in China, three production bases overseas, and 68 factories worldwide with a total capacity of over 10 million tonnes of dairy products each year.

Mengniu has developed the Mengniu Sustainable Financing Framework (the “Framework”) under which it intends to issue green, social and sustainability bonds and loans, and use the proceeds to finance or refinance, in whole or in part, existing and future projects that are expected to improve the environmental performance of the Company’s operations and contribute to providing social benefits in China.

The Framework defines eligible green categories in seven areas:

1. Environmentally Sustainable Management of Living Natural Resources and Land Use
2. Climate Change Mitigation
3. Renewable Energy
4. Energy Efficiency
5. Sustainable Water and Wastewater Management
6. Eco-efficient and Circular Economy Adapted Products, Production Technologies and Processes
7. Green Buildings

The Framework defines eligible social categories in two areas:

8. Access to Low-cost High Nutrition Products
9. Employment Generation through SME Financing

Mengniu engaged Sustainalytics to review the Mengniu Sustainable Financing Framework, dated June 2022, and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP), Social Bond Principles 2021 (SBP)¹, Green Loan Principles 2021 (GLP) and Social Loan Principles 2021 (SLP)². This Framework has been published in a separate document.³

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁴ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2021, as administered by ICMA, and the Green Loan Principles 2021 and Social Loan Principles 2021, as administered by LMA, APLMA, and LSTA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.11.3, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

¹ The Sustainability Bond Guidelines, Green Bond Principles, and Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>.

² The Green Loan Principles and Social Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association and are available at: <https://www.lsta.org/content/green-loan-principles/#> and <https://www.lsta.org/content/social-loan-principles-slp/>.

³ The Mengniu Sustainable Financing Framework is available on Mengniu’s website at: http://www.mengniuir.com/html/jr_offer.php.

⁴ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

As part of this engagement, Sustainalytics held conversations with various members of Mengniu's management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Mengniu representatives have confirmed (1) they understand it is the sole responsibility of Mengniu to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Mengniu.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond and loan proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond and loan proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Mengniu has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Mengniu - Sustainable Financing Framework

Sustainalytics is of the opinion that the Mengniu Sustainable Financing Framework is credible, impactful and aligns with the four core components of the GBP, SBP, GLP and SLP. Sustainalytics highlights the following elements of Mengniu's Sustainability Finance Framework:

- Use of Proceeds:
 - The eligible categories – Environmentally Sustainable Management of Living Natural Resources and Land Use, Climate Change Mitigation, Renewable Energy, Energy Efficiency, Sustainable Water and Wastewater Management, Eco-efficient and Circular Economy Adapted Products, Production Technologies and Processes, Green Buildings, Access to Low-cost High Nutrition Products and Employment Generation through SME Financing – are aligned with those recognized by the GBP, SBP, GLP and SLP. Sustainalytics notes that Mengniu's financing of eligible projects is expected to improve the environmental performance of the Company's operation and provide social benefit in China.
 - Mengniu has established a three-year look-back period for the refinancing of operating expenditures which Sustainalytics considers to be in line with market practice.
 - Under the Environmentally Sustainable Management of Living Natural Resources and Land Use category, Mengniu may finance the following projects:
 - Procurement of sustainable sourced products that has been certified under EU Organic certification,⁵ ACO certification⁶ or the National Association for Sustainable Agriculture Australia⁷ and other equivalent internationally recognized certifications. Mengniu confirms to Sustainalytics the sustainable sourced products is referring to

⁵ EU Organic label regulated by Council Regulation (EC) No. 848/2018 at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32018R0848>

⁶ Australian Certified Organic, "Australian Certified Organic Standard", at: <https://austorganic.com/industry/certification-and-standards/standards/acos/>

⁷ The National Association for Sustainable Agriculture Australia, "Organic Certification Standards", at: <https://ncocertifiedorganic.com.au/organic-certification-standards/>

raw milk. Sustainalytics notes that credible organic certification schemes for dairy production are associated with multiple positive environmental impacts, such as soil fertility management, feeding with organic crop products and animal welfare. While these schemes can, in addition, be expected to partially mitigate some GHG emissions resulting from dairy production, they do not address the bulk of such emissions. Sustainalytics further notes that it is market expectation to specify all eligible schemes and certifications, therefore, Sustainalytics encourages Mengniu to adopt additional measures to reduce carbon emissions associated with its procured organic milk and to report on any specific schemes and certifications it intends to use. For details of Mengniu's measures to mitigate carbon emission refer to section 2.

- Acquisition of pure play companies that derive at least 90% of turnover from activities identified in the eligible categories. Sustainalytics acknowledges that the GBP, SBP, GLP and SLP favour project-based lending and financing, which provide more transparency in general than non-project-based financing but notes that financing pure play companies through green and social bonds is commonly accepted in the market as an approach which can generate positive impact.
- Under the Climate Change Mitigation category, Mengniu may finance research, development, implementation, operation and maintenance of initiatives and programmes aimed at reducing greenhouse gas emissions. Mengniu has confirmed that all R&D expenditures under the Framework will not exceed 10% of the total bond proceeds. Potential projects may include the following:
 - Research of altering livestock feeding practices. Mengniu intends to finance research focusing on reducing protein in the cow's diet by using supplements and additives and adjusting silage rations and forage mixtures as well as screening nutritional additives that can regulate the rumen microflora of dairy cows.⁸ The Company has confirmed that the research is in mature stage.
 - Research and implementation of improving manure management and converting methane from manure to bioenergy and fertilizer. Such projects may include the introduction of manure treatment solutions with aerobic and anaerobic fermentation systems. Mengniu has confirmed that the research is in mature stage. Additionally, Mengniu may implement manure treatment solutions at ranches through third-party companies. This may include the implementation of an integrated model, where the output of manure treatment solution being applied as an organic fertilizer to pasture and high-quality forage growing in areas that are suitable for dairy cattle breeding. While Sustainalytics notes that the use of livestock manure for biomass energy may improve the environmental performance of some agricultural operations, large- and mid-scale livestock farming have significant carbon and water footprints, which are only partially addressed by the use of livestock by-products in energy generation. Further, such farming techniques may contribute to land degradation, biodiversity loss and deforestation. Nevertheless, as Mengniu has confirmed that the implementation will exclude large-scale farming and industrial farming and the bioenergy converted from manure management will only be used for processing of dairy products only, Sustainalytics considers the use of residues from day-to-day operations of existing facilities for energy generation as providing positive impacts in the short term.
- Under the Renewable Energy category, Mengniu may finance or refinance the construction, development, acquisition, maintenance and operation of photovoltaic power stations, biomass boilers and biogas facilities with life cycle emissions below 100 gCO₂e/kWh. Mengniu confirmed to Sustainalytics that the feedstock for biomass boilers is agriculture residue and that for biogas facilities it is cattle manure and sludge from non-fossil fuel related operations. Mengniu also intends to finance renewable energy power purchase agreements (PPAs) for purchase of power from wind and photovoltaic projects as well as the purchase of renewable energy certificates (REC). Sustainalytics notes that the Company's current arrangements for PPAs are renewed on an annual basis; while also noting Mengniu's commitment to renew short-term contracts on the

⁸ Since enteral fermentation is the largest emissions source in dairy farming, source and structure of forage in cow's diet can impact methane emissions generated by enteral fermentation. Thus, research on the supply of nutrients, such as protein, carbohydrates and fats can reduce the production of fermented methane in cows' intestines.

- same sustainability terms throughout the duration of the bond. Considering that long-term PPAs are the market preference for renewable energy procurement, Sustainalytics encourages Mengniu to pursue longer-term agreements.
- For the Energy Efficiency category, Mengniu may finance or refinance projects that improve efficiency of buildings and dairy processing plants by at least 15%. Eligible projects may include energy-efficient air compressors, energy saving motor systems and auto-adjusting LED lighting. Mengniu confirmed to Sustainalytics that the energy efficient facilities and infrastructure intended to be financed and refinanced are powered by electricity. Sustainalytics considers this aligns with market practice.
 - The Sustainable Water and Wastewater Management category includes projects related to recycling facilities that promote water reuse in production processes, water reclamation systems and wastewater treatment facilities. Mengniu confirmed to Sustainalytics that the facilities financed or refinanced under this category will be powered by electricity and that wastewater treatment facilities will exclude treatment of wastewater from fossil fuel operations. Sustainalytics considers this aligned with market practice.
 - Under the Eco-efficient and Circular Economy Adapted Products, Production Technologies and Processes category, Mengniu may finance the procurement of resource-efficient packaging including Forest Stewardship Council (FSC) or the Sustainable Forestry Initiative (SFI) certified recyclable paper packaging material. This is in line with market practice.
 - Under the Green Building category, Mengniu may finance design, construction and maintenance of buildings that have received or are expected to receive one of the following certifications: Chinese Green Building Evaluation Label (2 stars or above),⁹ LEED (Gold or above),¹⁰ and BREEAM (Excellent or above).¹¹ Sustainalytics considers these standards to be robust, credible and the levels selected to be in accordance with market expectations. Mengniu may also finance retrofit, upgrade or renovation of office spaces or production plants that reach at least 30% energy efficiency improvement compared to pre-retrofit performance.
 - Within the Access to Low-cost High Nutrition Products category, Mengniu may donate milk to preschool children and teenagers that are from low-income rural or ethnic-minority communities and areas seriously affected by the COVID-19 pandemic as well as towards credible non-profit organization for youth development¹². The Company may also finance education and training activities that are intended to support the healthy growth and development of the above-mentioned target population. Mengniu has confirmed that the program will be free and accessible to the target population regardless of their ability to pay. The Company has confirmed that indirect financing through donations to the target populations and charitable foundations will be limited to 10% of proceeds.
 - Under Employment Generation through SME Financing, Mengniu may provide supply chain financial services in cooperation with banks, such as loans to SMEs¹³ in their upstream supply chains. In addition, Mengniu may also provide financial support such as contributions for the purchase of goods and services to aid daily operational activities, and loans to SMEs that are affected by pandemics or natural disasters. Sustainalytics considers this to be aligned with market practice.
 - Project Evaluation and Selection:
 - Mengniu has established a Secretary Department of Sustainable Development Executive Committee (“the Secretary Department”) to oversee the project evaluation and selection process. The Secretary Department consists of Mengniu’s Corporate Affairs, Investor Relations and Finance Departments, will be responsible for evaluating and selecting eligible projects in line with the Framework’s eligibility criteria and submitting to Mengniu’s Sustainable Development Executive Committee for final approval.

⁹ World Green Building Council, Assessment Standard for Green Building of China, at:

<https://www.worldgbc.org/sites/default/files/Introduction%20to%20China%20Green%20Building%20Assessment%20Standard%203rd%20Edition.pdf>

¹⁰ Leadership in Energy and Environmental Design (LEED), LEED rating system at: <https://www.usgbc.org/leed>

¹¹ BREEAM (Building Research Establishment Environmental Assessment Method), What is BREEAM? at: <https://www.breeam.com/>

¹² China Youth Development Foundation, “About us”, <https://en.cydf.org.cn/OurHistory/>

¹³ SMEs are defined according to the Criteria for Classifying Small and Medium-sized Enterprises (《中小企业划型标准规定》) of China’s Ministry of Industry and Information Technology, National Bureau of Statistics, National Development and Reform Commission, and Ministry of Finance, at: https://www.miit.gov.cn/jgsj/qyj/wjfb/art/2020/art_235af1ade45c4865957adeed23f9d949.html

- The Company will undertake environmental and social risk assessments which are applicable to all allocation decisions made under the Framework. Sustainalytics considers this risk assessment process to be adequate and aligned with market practice.
- Based on the cross-functional oversight for the project evaluation and the presence of risk management system, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
 - Mengniu's Finance Department will be responsible for the management and allocation of proceeds. The proceeds will be tracked through a sustainable financing register.
 - The Company intends to fully allocate the proceeds to eligible projects within two years of issuance. Pending allocation, unallocated proceeds will be temporarily invested in cash, cash equivalents or other short-term liquid instruments in accordance with Mengniu's corporate treasury policy.
 - Based on the use of a sustainable financing register and the disclosure of the temporary use of unallocated proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
 - Mengniu intends to report on the allocation of proceeds and corresponding impact in its sustainability report on an annual basis. Allocation reporting will include the aggregate amount of proceeds allocated to eligible projects, the balance of unallocated proceeds, the type of temporary investment, the share of financing versus refinancing and examples of eligible projects.
 - Where feasible, impact reporting may include key performance indicators such as annual GHG emissions reduced or avoided, number of research projects, volume, spend or percentage of certified ingredients or products, annual renewable energy generation and annual energy savings. For a complete list of impact indicators, please refer to Appendix 1.
 - Based on the commitment to both allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

Alignment with Sustainability Bond Guidelines 2021

Sustainalytics has determined that the Mengniu Sustainable Financing Framework aligns with the four core components of the GBP, SBP, GLP and SLP. For detailed information, please refer to Appendix 1: Sustainability Bond/ Sustainability Bond Programme External Review Form.

Section 2: Sustainability Performance of Mengniu

Contribution of Framework to Mengniu's sustainability strategy

Mengniu's sustainability commitment is aligned with the UN SDGs and complements China's target of carbon neutrality by 2060 through green production, responsible supply chain and circular economy. Mengniu's "GREEN Sustainable Development Strategy" is based on four core components: environmentally friendly green production, responsible supply chain, inclusive nutrition supply and dairy responsibility for rural revitalization.¹⁴

Mengniu demonstrates its commitment to green production through implementation of energy and water conservation measures, wastewater treatment measures and conducting carbon audits. Mengniu has established energy maps and carbon maps at each factory to actively manage emissions, promoting the generation of solar PV energy and biomass energy for the Company's own use. In 2021, Mengniu has generated 8,698 MWh solar energy and biomass energy produced 289,575 tonnes of steam. In addition, Mengniu has joined the Pathways to Dairy Net Zero,¹⁵ a climate initiative initiated by Global Dairy Platform which aims to reduce GHG emissions in the dairy sector. To reduce GHG emissions from the Company's upstream providers, Mengniu worked with the Consultative Group for International Agricultural Research (CGIAR) and China Agricultural University on projects that assess and develop standard for carbon reduction from 20 cooperative ranches of the Company.¹⁶ Mengniu has formed a Dual-Carbon Climate Strategy with a

¹⁴ Mengniu, "ESG Report 2020", available: https://media-mengniu.todayir.com/2021062117320220619810135_en.pdf

¹⁵ Global Dairy Platform, "Pathways to Dairy Net Zero Initiative Launched", 2021, <https://www.globaldairyplatform.com/pathways-to-dairy-net-zero-initiative-launched/>

¹⁶ Mengniu, "ESG Report 2020", available: https://media-mengniu.todayir.com/2021062117320220619810135_en.pdf

goal of peaking carbon emission in 2030 and reaching carbon neutrality by 2050 and a detailed carbon emission intensity reduction target from 165 kgCO₂e/t of dairy product in 2025 to 160 kgCO₂e/t in 2030.¹⁷

Mengniu follows a water conservation strategy of Save Use, Recycle Use and Common Use to manage the Company's water usage through pre-treatment, filling, cleaning, refrigeration and water treatment. Through the implementation of water conservation measures such as equipment and facility upgrade, water recycling from steam and cooling tower and wastewater treatment, Mengniu reduced fresh water consumption per unit product by 2.02% in 2021 comparing to 2020. Mengniu has pledged to reduce 6% of water per tonne of production by 2025 compared to 2020 baseline. Mengniu's promotion of recyclable packing applies to redesign of package, reduce weight of package, reuse package, using recyclable material and recovery industrial waste and has saved 200 tonnes of plastic based on annual purchase of 100 million bottles of milk and achieved 100% paper package materials certified by the FSC or SFI. Mengniu has pledged to achieve 100% sustainable packaging technology by 2025.

Following the Company's commitment to responsible sourcing, Mengniu integrates ESG to manage Mengniu's supply chain through a digital platform which enables the Company to trace and manage milk sources as well as optimize different stages in production, such as planning, procurement, production, sales and logistics. In addition, Mengniu has implemented several management systems, such as a supplier management system and a quality management system for raw and auxiliary material suppliers, having also conducted supplier training covering 95% of its suppliers to ensure responsible management of its supply chain.

As a dairy products producer, Mengniu's CSR efforts include the implementation of an Inclusive Nutrition Plan which aims to provide environmental education and milk to students. In 2021, Mengniu donated 3.03 million boxes of milk to 185 schools covering 214,475 students across the country.¹⁸

Sustainalytics is of the opinion that the Mengniu Sustainable Financing Framework is aligned with the Company's overall sustainability strategy and initiatives, and is expected to further the Company's action on its key environmental priorities.

Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that the net proceeds from the bond issued under the Framework will be directed towards eligible projects that are expected to have positive environmental impact. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks possibly associated with the eligible projects could include issues involving supply chain management, occupational health and safety, land use and biodiversity loss, emissions, effluents, and waste disposal associated with large-scale infrastructure development.

Sustainalytics is of the opinion that Mengniu is able to manage and/or mitigate potential risks through the implementation of the following:¹⁹

- Mengniu established Sustainable Development Committee to manage the Company's sustainability risk profile. The Company incorporates significant risks in regular business management process and adopts project-based coordinated response and control, including legal and regulatory risks, environmental risks, and work safety risks.
- Mengniu has established a Supplier Code of Conduct which requires its suppliers to sign and comply with environmental laws and regulations, having environmental management measures, practice resources conservation, climate change adaptation, waste management and green packaging. The Code also address occupational diseases, providing a healthy and safe working environment as well as protection of labour rights. To ensure the implementation of the Code, Mengniu conducts regular supply chain assessments and provides targeted training for suppliers.
- China's Environmental Impact Assessment Act requires all projects related to construction, reconstruction, expansion and refurbishing to conduct an environmental risk assessment during the initial phase of project design and feasibility analysis. The act stipulates that the assessment must include the identification of key risk factors related to air, water, soil pollution and human health. According to Chinese law, all companies are required to undergo an assessment by an independent and certified environmental impact assessment to avoid potential conflict of interest.²⁰

¹⁷ Mengniu, "ESG Report 2021", available: https://media-mengniu.todayir.com/202205301415101787829417_en.pdf

¹⁸ Ibid.

¹⁹ Mengniu, "ESG Report 2020", available: https://media-mengniu.todayir.com/2021062117320220619810135_en.pdf

²⁰ Zhengzhou Foreign-funded Enterprise Service Center, "Environmental Impact Assessment Law of the People's Republic of China", at: <https://www.waizi.org.cn/law/11686.html>.

- To minimize emissions and waste from operation, Mengniu complies with China's environmental protection laws and regulations, such as the Environmental Protection Law.²¹ The Company has also internal procedures and systems in place, such as pollutant control procedures. As a dairy producer, Mengniu commits to being environmentally responsible upstream. To mitigate risk of deforestation, the Company requires its partner farms comply the Forest Law of the People's Republic of China and the forest protection provisions following local policies, and lands used for construction will be formally transferred and strictly approved by the local government.

Based on these policies, standards and assessments, Sustainalytics is of the opinion that Mengniu has implemented adequate measures and is well-positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

Section 3: Impact of Use of Proceeds

All nine use of proceeds categories are aligned with those recognized by GBP, SBP, GLP or SLP. Sustainalytics has focused on one below where the impact is specifically relevant in the local context.

Impact of organic certification on dairy farming waste and pollution control

China has 0.21 hectares of agricultural land per person, about half of the world's average, but more than 40% of China's arable land is degraded.²² Intensive dairy farming can degrade soil through a variety of processes: erosion, contamination, compaction, acidification, salinisation, and depletion of soil organic matter.²³ Dairy farming also can cause environmental impact on water quality, biological and chemical pollution.^{24,25} Approximately a quarter of manure spills resulted from storage overflows, with an equivalent amount caused by equipment malfunction. The other major causes of spills are improper application to cropland and runoff from feedlots.²⁶

The Chinese government established a policy to promote green and sustainable livestock farming and aims for reaching 80% manure utilization rate in 2025.²⁷ In 2018, China published a policy in ensuring quality and safety of milk and dairy products. The policy includes strengthening source management and quality monitoring, promoting establishment of high-quality dairy farm and strictly control the use of veterinary drugs in dairy farming.²⁸ Organic farming is found to increase soil organic matter, adding benefit of improving soil quality and enhancing long-term sustainability of agriculture.²⁹ It also mitigates contamination through mandating organic livestock producers to manage manure, for example, implementing composting and green manuring and optimizing recycling of nutrients.³⁰

Considering the above, organic certifications bring more transparency on the management of dairy farm and its products by establishing sets of certification standards and requirements, for example, prohibition of veterinary drugs and requirements on manure management. These requirements of organic certification help mitigate part of the waste and pollution problems in dairy farming and drive the prohibition of veterinary drugs in dairy farming, Sustainalytics considers Mengniu's use of proceeds to have can contribute to waste and pollution control that align with the Chinese government policy on dairy farm management.

²¹ Environmental Protection Law of the People's Republic of China, at:

<https://www.ilo.org/dyn/natlex/docs/ELECTRONIC/92655/108043/F315004188/CHN92655%20Eng.pdf>

²² Claudio O. Delang, (2018), published at Sciendo. "The consequences of soil degradation in China: a review".

²³ SoCo Project Team. Addressing Soil Degradation in EU Agriculture: Relevant Processes, Practices and Policies. Report on the Project "Sustainable Agriculture and Soil Conservation (SoCo)"; European Commission: Luxembourg, 2009.

²⁴ Grout, L.; Baker, M.G.; French, N.; Hales, S. A review of potential public health impacts associated with the global dairy sector. *GeoHealth* 2020, 4, e2019GH000213. [CrossRef] [PubMed]

²⁵ Foote, K.; Joy, M.; Death, R. New Zealand dairy farming: Milking our environment for all its worth. *Environ. Manage.* 2015, 56, 709–720.

²⁶ Extension Service, North Dakota State University, Manure Spills: What You Need to Know and Environmental Consequences, available:

<https://www.ag.ndsu.edu/manure/documents/nm1555.pdf>

²⁷ The State Council of the People's Republic of China, (2020), "Opinions on promoting high-quality development of animal husbandry" (Chinese only), available at: http://www.gov.cn/zhengce/2020-10/02/content_5548960.htm

²⁸ The State Council of the People's Republic of China, (2018), ("Promoting revitalization of dairy industry- opinions on ensuring the quality and safety of dairy products" (in Chinese), available at: http://www.gov.cn/zhengce/content/2018-06/11/content_5297839.htm

²⁹ Laird, D.A. Martens and W.L. Kingery, (2001). "Nature of clay-Humic complexes in an Agricultural soil: I. Chemical, Biological and Spectroscopic Analysis." *Soil science society of America Journal*, 65: 1413-1418.

³⁰ Chander, M., B. Scbrahmanyeswari, R. Mukherjee and S. Kumar, (2011). "Organic livestock production: an emerging opportunity with new challenges for producers in tropical countries." *Rev. sci. tech. Off. int. Epiz (International Office of Epizootics)*, 30: 969-983.

Alignment with/contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by the year 2030. The instruments issued under the Mengniu Sustainable Financing Framework are expected to help advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Environmentally Sustainable Management of Living Natural Resources and Land Use	2. Zero hunger	2.4 By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality
Climate Change Mitigation	9. Industry, Innovation and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Energy Efficiency	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency
Sustainable Water and Wastewater Management	6. Clean Water and Sanitation	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally
Eco-efficient and Circular Economy Adapted Products, Production Technologies and Processes	12. Responsible Consumption and Production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
Green Buildings	9. Industry, Innovation and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Access to Low-cost High Nutrition Products	2. Zero Hunger	2.1 By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round
Employment Generation through SME Financing	8. Decent Work and Economic Growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized

		<p>enterprises, including through access to financial services.</p> <p>8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.</p>
--	--	--

Conclusion

Mengniu has developed the Mengniu Sustainable Financing Framework under which it may issue green, social and sustainability bonds and loans and use the proceeds to finance projects that are expected to improve the environmental performance of the Company’s operations and provide social benefit in China. Sustainalytics considers that the projects funded by the proceeds are expected to improve the environmental performance of the Company’s operation and contribute to providing social benefits in China.

The Mengniu Sustainable Financing Framework outlines a process by which proceeds will be tracked, allocated, and managed and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Mengniu Sustainable Financing Framework is aligned with the overall sustainability strategy of the Company and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 2, 6, 7, 8, 9 and 12. Additionally, Sustainalytics is of the opinion that Mengniu has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the proceeds.

Based on the above, Sustainalytics is confident that China Mengniu Dairy Company Limited is well positioned to issue green, social and sustainability bonds and loan that Mengniu Sustainable Financing Framework is robust, transparent and in alignment with the four core components of the Green Bond Principles (2021), Social Bond Principles (2021), Green Loan Principles (2021) and Social Loan Principles (2021).

Appendix

Appendix 1: Sustainability Bond / Sustainability Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	China Mengniu Dairy Company Limited
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:	Mengniu Sustainable Financing Framework
Review provider's name:	Sustainalytics
Completion date of this form:	June 2, 2022
Publication date of review publication: Original publication date	

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP and SBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (please specify): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

The eligible categories for the use of proceeds Environmentally Sustainable Management of Living Natural Resources and Land Use, Climate Change Mitigation, Renewable Energy, Energy Efficiency, Sustainable Water and Wastewater Management, Eco-efficient and Circular Economy Adapted Products, Production Technologies and Processes, Green Buildings, Access to Low-cost High Nutrition Products, Employment Generation through SME Financing, are aligned with those recognized by the Green Bond Principles, Social Bond Principles, Green Loan Principles, and Social Loan Principles. Sustainalytics considers that investments in the eligible categories are expected to improve the environmental performance of the company's operation and provide social benefit in China and advance the UN Sustainable Development Goals, specifically SDG 2, 6, 7, 8, 9 and 12.

Use of proceeds categories as per GBP:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Renewable energy | <input checked="" type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input checked="" type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input type="checkbox"/> Clean transportation |
| <input checked="" type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input checked="" type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input checked="" type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input checked="" type="checkbox"/> Other (please specify): Climate change mitigation |

If applicable please specify the environmental taxonomy, if other than GBPs:

Use of proceeds categories as per SBP:

- | | |
|--|--|
| <input type="checkbox"/> Affordable basic infrastructure | <input type="checkbox"/> Access to essential services |
| <input type="checkbox"/> Affordable housing | <input checked="" type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security | <input type="checkbox"/> Socioeconomic advancement and empowerment |

- Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP
 Other (please specify): Access to low-cost, high nutrition products

If applicable please specify the social taxonomy, if other than SBP:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

China Mengniu Dairy Company Limited's Secretary Department of Sustainable Development Executive Committee consists of Mengniu's Corporate Affairs, Investor Relations and Finance Departments, will be responsible for evaluating and selecting eligible projects in line with the Framework's eligibility criteria and submitting to the Sustainable Development Executive Committee for final approval. The Company will undertake an environmental and social risk assessment which is applicable to all allocation decisions made under the Framework. Sustainalytics considers the risk management system to be adequate and the process to be in line with market practice.

Evaluation and selection

- Credentials on the issuer's social and green objectives
 Documented process to determine that projects fit within defined categories
- Defined and transparent criteria for projects eligible for Sustainability Bond proceeds
 Documented process to identify and manage potential ESG risks associated with the project
- Summary criteria for project evaluation and selection publicly available
 Other (please specify):

Information on Responsibilities and Accountability

- Evaluation / Selection criteria subject to external advice or verification
 In-house assessment
- Other (please specify):

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

China Mengniu Dairy Company Limited's Finance Department will track the allocation of proceeds through a sustainable financing register. The Company intends to fully allocate the proceeds to eligible projects within two years of issuance. Pending allocation, proceeds will temporarily be invested in cash, cash equivalents or short-term liquid instruments in accordance with the Company's corporate treasury policy. This is in line with market practice.

Tracking of proceeds:

- Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner

- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (please specify):

Additional disclosure:

- Allocations to future investments only Allocations to both existing and future investments
- Allocation to individual disbursements Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds Other (please specify):

4. REPORTING

Overall comment on section (if applicable):

China Mengniu Dairy Company Limited intends to report on allocation of proceeds in its sustainability report on an annual basis until full allocation. Allocation reporting will include information such as the aggregate amount of proceeds allocated to eligible projects, balance of unallocated proceeds and share of financing versus refinancing. In addition, the Company is committed to reporting on relevant impact metrics. Sustainalytics views the Company's allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

- Project-by-project On a project portfolio basis
- Linkage to individual bond(s) Other (please specify):

Information reported:

- Allocated amounts Sustainability Bond financed share of total investment
- Other (please specify):
 Unallocated amounts, type of temporary investment, share of financing versus refinancing, examples of eligible projects.

Frequency:

- Annual Semi-annual
- Other (please specify):

Impact reporting:

- Project-by-project On a project portfolio basis

- Linkage to individual bond(s) Other (please specify):

Information reported (expected or ex-post):

- | | |
|---|--|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input checked="" type="checkbox"/> Energy Savings |
| <input checked="" type="checkbox"/> Decrease in water use | <input checked="" type="checkbox"/> Number of beneficiaries |
| <input type="checkbox"/> Target populations | <input type="checkbox"/> Other ESG indicators (please specify): Number of research projects, volume, spend or percentage of certified ingredients/products, electricity procured and generated from renewable energy, volume of water treated or recycled, reused and recycled components, share of recyclable packaging material, packaging materials reduced, waste prevented, minimized, reused or recycled, green certified office space by certification type and level, number and type of green building certifications, number of SMEs/individuals benefited |

Frequency:

- Annual Semi-annual
 Other (please specify):

Means of Disclosure

- | | |
|---|--|
| <input type="checkbox"/> Information published in financial report | <input checked="" type="checkbox"/> Information published in sustainability report |
| <input type="checkbox"/> Information published in ad hoc documents | <input type="checkbox"/> Other (please specify): |
| <input type="checkbox"/> Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): | |

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer’s documentation, etc.)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- Consultancy (incl. 2nd opinion) Certification

- Verification / Audit Rating
- Other (*please specify*):

Review provider(s):

Date of publication:

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP

- i. **Second-Party Opinion:** An institution with sustainability expertise that is independent from the issuer may provide a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Sustainability Bond framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social features of the type of Projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.
- iii. **Certification:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green, Social and Sustainability Bond Scoring/Rating:** An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.

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